financial report 1986–87

Manitoba
Finance

89-00795/

This financial report contains information on the fiscal position of the Province for the 1986–87 fiscal year.

The Manitoba economy expanded for the fourth consecutive year in 1986. Real Gross Domestic Product is estimated to have increased by 3.3%. Strong growth in investment continued to be a key factor in overall growth. Real output gains were shared by all major sectors of the economy except agriculture and minerals where lower production volumes accompanied lower world prices for many commodities.

Total employment increased 2.7%, or 13,000, to 493,000 in 1986, the greatest number of new jobs and the strongest rate of job creation in the Province since 1974. Manitoba's unemployment rate averaged 7.7% in 1986, the second lowest among provinces for the fourth consecutive year.

Personal income increased 6.0% to $16.9 billion in 1986 with the strongest growth being recorded for the non–farm unincorporated business and labour income components. Net farm income declined substantially, however, realized net farm income (the excess of gross income over operating expenses and depreciation allowances, before taking account of inventory changes) increased 38.7% to $505 million in 1986.

In 1986–87, total expenditure was $3,946 million, an increase of $301 million, or 8.3%, from 1985–86. Program expenditure, that is total expenditure less public debt costs, increased $222 million, or 6.6%, in 1986–87. Revenue increased $270 million, or 8.7%, to $3,387 million in 1986–87.

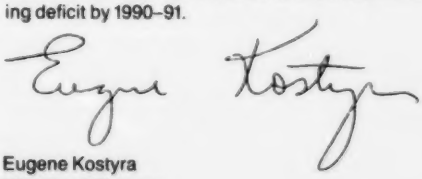
During the fiscal year, foreign exchange fluctuations and increased interest costs on long–term financing contributed to above–Budget expenditure for Hydro Rate Stabilization ($34 million) and Public Debt ($29 million). As well, Health and Community Services expenditure increased $32 million during the year, mainly due to increased Hospital Program costs, and volume and fee–for–service increases in the Medical Program. Part of these increases were offset by below–Budget increases in other categories of expenditure resulting in actual expenditure being $76 million, or 2.0%, over the Budget estimate of $3,870 million.

Federal government cash transfers for equalization, health and higher education and other purposes were $16 million lower than Budget estimates. Corporate income taxes were $27 million lower and personal income taxes were $40 million higher than Budget estimates mainly as a result of revised Federal estimates and prior year adjustments. Greater than anticipated growth in Manitoba collections contributed to actual revenue being $7 million, or 0.2% over the Budget estimate of $3,380 million.

The report shows net budgetary requirements in 1986–87 were $559 million, $31 million higher than in 1985–86. Capital expenditure was $249 million and the net operating requirement was $310 million in 1986–87.

A policy change relating to the reporting of valuation allowances for Crown corporation losses was initiated in 1986–87 and will be fully implemented by 1988–89. Under the new policy, non–recoverable losses will be provided for in the Estimate of Expenditure for the immediately succeeding fiscal year. This treatment will be in conformity with the interpretation of the policy by the Provincial Auditor.

The Budget for the 1987–88 fiscal year, presented in March 1987, implemented measures to reduce budgetary requirements while preserving needed services. These measures included restructuring taxation with an emphasis on equity and ability to pay, along with limitations in program spending including year–over–year reductions in a number of areas. The Budget also announced that, effective April 1, 1987, the Province would no longer bear the foreign exchange risk associated with Manitoba Hydro's existing U.S. debt and new debt issues. The 1987 Budget projected reductions of more than $140 million in both the net budgetary requirement and net operating requirement, to their lowest levels in six years. The Government has also indicated its intention to eliminate the net operating deficit by 1990–91.



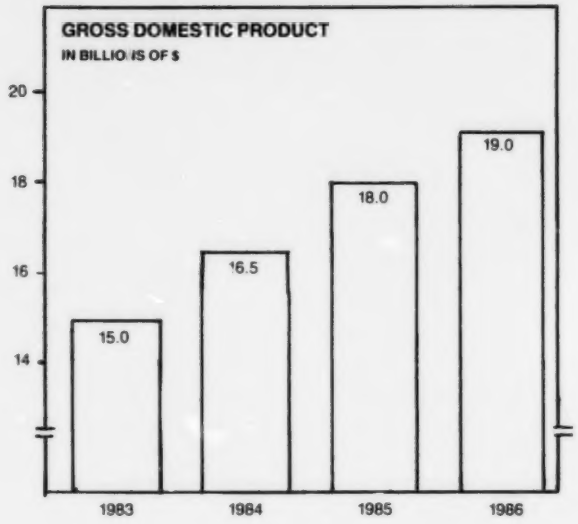
Eugene Kostyra
Minister of Finance
Chair of Treasury Board
February, 1988

ECONOMIC STATISTICS

Gross Domestic Product

In 1986, Manitoba recorded its fourth year of growth following the 1981–82 recession, as Gross Domestic Product (GDP) rose to an estimated $19.0 billion, an increase of $1 billion, or 5.9% from 1985. In real terms, GDP grew by 3.3%. Investment growth continued as a key factor in overall economic growth advancing by 11.3%, double the national rate of 5.7%. Real output increased in all major sectors of the economy, apart from agriculture and minerals where lower production was accompanied by lower international prices for many commodities.

Totai employment advanced by 13,000, or 2.7% in 1986, the largest number of new jobs and the strongest rate of employment growth since 1974. Manitoba's unemployment rate averaged 7.7% in 1986, down from 8.1% in 1985 and the second lowest among provinces for the fourth consecutive year. Increases in employment and incomes over the 1980s have resulted in a slight narrowing of the per capita personal income gap between Manitoba and Canada. Nevertheless, the gap remained at about 7% of the national average, or $1,200 per person in 1986.

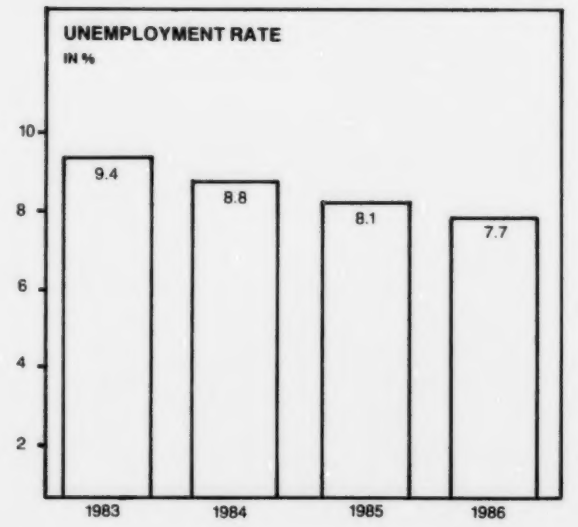


Employment and Incomes

Total employment in Manitoba averaged 493,000 in 1986, an increase of 13,000 or 2.7% from 1985. This represents the largest number of new jobs and the strongest rate of employment growth since 1974. In 1986, as in the 1981 to 1986 period, the private sector accounted for all of the net job creation in the province. In 1986, two thousand fewer Manitobans were unemployed, reducing unemployment to its lowest level in five years. The unemployment rate averaged 7.7%, well below the national average of 9.6%, and, for the fourth consecutive year, the second lowest among provinces.

Manitoba's population was an estimated 1,071,200 in 1986, up 7,200 or 0.7% from 1985. This growth may be attributed almost entirely to the natural increase in population, although there was also an estimated 243 person gain in net migration.

In 1986, personal income in Manitoba reached an estimated $16.9 billion, an increase of 6.0% from 1985. More jobs and more full-time work resulted in an 8.0% increase in labour income to $10.2 billion. Non-farm unincorporated business income increased by 12.5% to $1.3 billion and was the strongest area of growth in 1986. Reflecting the serious financial situation in the agricultural sector, net farm income declined by 37.9% to about $381 million. The Consumer Price Index (CPI) for Winnipeg increased at a moderate rate of 4.5% in 1986.



Investment

In 1986, as over the past several years, capital investment continued to play a major role in Manitoba's economic growth and above-average economic performance. Non-residential capital investment increased by 8.1% in 1986 to $2.6 billion, following increases of 20.2% in 1984 and 12.8% in 1985. Sectors recording growth of more than 20% in 1986 included; transportation, utilities, finance, insurance and real estate, and institutions. Residential capital investment increased 20.6% in 1986 to almost $1.0 billion, as housing starts rose to an eight-year high. Total capital investment reached a level of $3.7 billion, an increase of 11.3% from 1985, double the 5.7% growth recorded at the national level.

Sectoral Developments

The value of agriculture production totalled $2.2 billion in 1986, 12.1% below the 1985 level. Production volumes for most of the major crops were above average, but below 1985 record levels. Wheat, barley and canola production declined 14%, 26% and 7%, respectively. World price declines for most grain crops were also a factor constraining the total value of crop production. The value of livestock production increased 8.0% primarily as a result of improved hog prices.

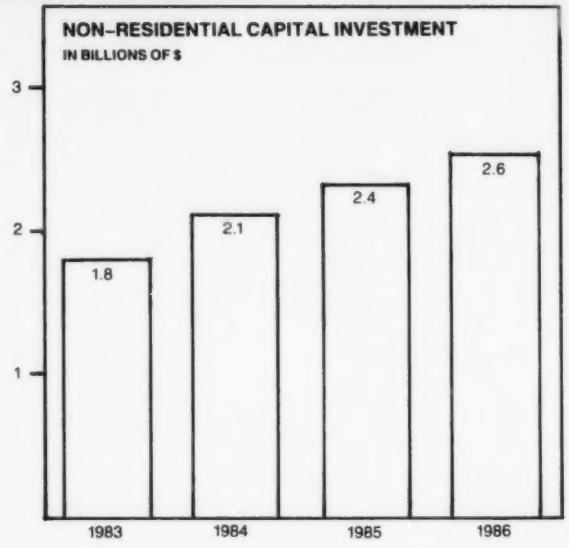
In 1986, realized gross farm income increased by 4.1%, while operating and depreciation expenses declined by 3.6%. Consequently, realized net income rose to approximately $505 million, an increase of 38.7% from 1985. However, net farm income, which includes changes in the value of inventories, declined by about one-third in 1986, to $409 million.

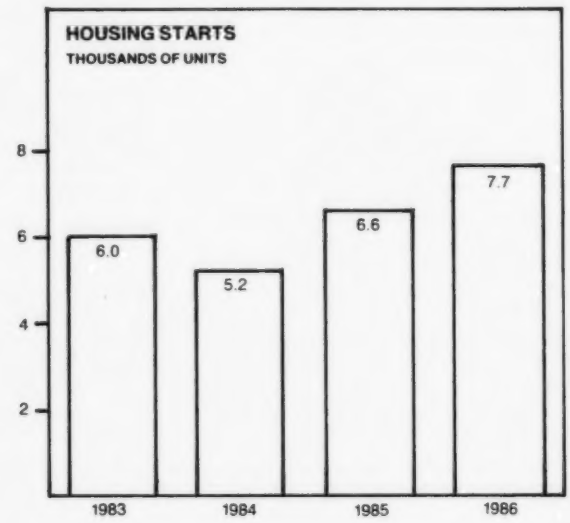
The value of mineral production in Manitoba was $758.4 million in 1986, 11.9% lower than in 1985. Sharp declines in prices for mineral products was the dominant trend in 1986, with petroleum and nickel, which account for more than half of the value of mineral production, recording average price declines of 47.4% and 19.1%, respectively. The overall value of metal production declined by 5.3% in 1986, as declines in nickel and zinc offset increases in copper and other metals. The value of industrial mineral production increased 11.4% to $122 million, largely as a result of a substantial increase in the demand for cement. Petroleum production remained at its 1985 level, while the decline in value to $95 million was accounted for by lower prices.

In 1986, the value of shipments in Manitoba's manufacturing sector increased by an estimated 1.9% to about $5.6 billion. Of the Province's major manufacturing industries, strongest growth in the value of shipments was recorded in the non-metallic minerals, wood and fabricated metals industries, where growth rates of over 12% were recorded. Growth in manufacturing industries linked to agriculture, such as food processing and farm equipment and supplies, continued to be constrained.

Construction activity in Manitoba advanced sharply for the fourth year in succession in 1986. Non-residential construction spending increased by 9.7%, strongest among provinces and in contrast to the 4.7% decline recorded for Canada as a whole. Residential construction spending advanced by a strong 18.4%, as housing starts reached an eight-year high of 7,699 units and single starts reached a twelve-year high of 4,791 units. Total construction expenditure in the Province, at $2.7 billion, was 10.4%, or more than one-quarter of a billion dollars, higher than in 1985.

The value of hydro-electricity produced in Manitoba rose to a record $614 million in 1986, 6.2% above the previous record set in 1985. The volume of domestic sales increased 2.5%, while exports increased 13.7% — due to increased sales to the United States. Favourable water conditions was the key factor contributing to increased production and exports.





Manitoba's service sector continued to be a key factor in the growth of the provincial economy in 1986. The commercial sector accounted for 9,000 new jobs, or almost three-quarters of the total increase in employment. In 1986, the value of retail sales increased by 4.7% to $5.4 billion, following outstanding growth of 15.2% in the previous year. The value of wholesale trade, meanwhile, increased 10.4% to almost $6.5 billion.

FINANCIAL HIGHLIGHTS

SUMMARY OF FINANCIAL POSITION

	1985–86	1986–87	
	Actual	Budget	Actual
		(millions of dollars)	
Total Expenditure	3,645	3,870	3,946
Less: Total Revenue	3,117	3,380	3,387
Net Budgetary Requirement	528	490	559
Less: Gross Capital Expenditure	277	266	249
Net Operating Requirement	251	224	310

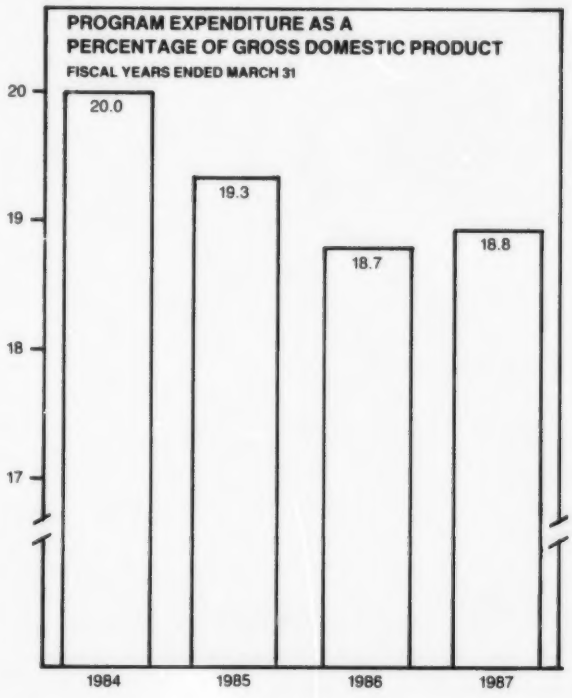
Expenditure and Revenue

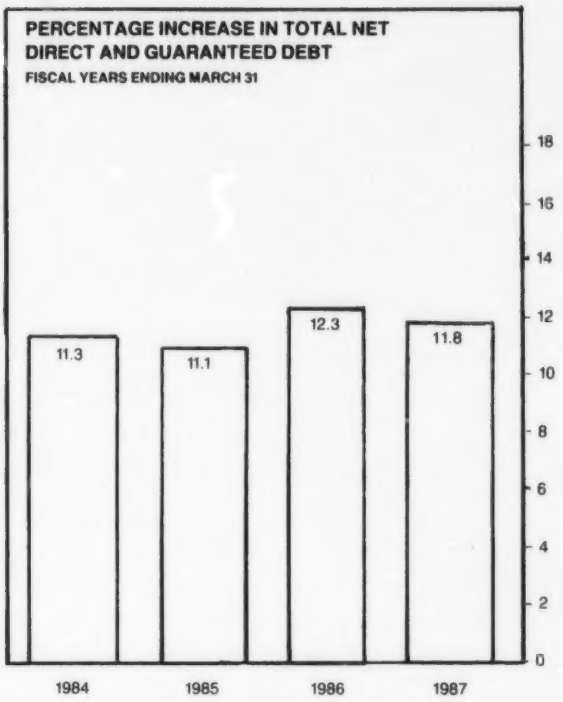
Total expenditure in the 1986–87 fiscal year amounted to $3,946 million, an increase of $301 million, or 8.3% over the 1985–86 total of $3,645 million. Program expenditure, that is total expenditure less public debt costs, increased $222 million, or 6.6%, from 1985–86 with Health and Community Services expenditure up $123 million, or 7.9% and Hydro Rate Stabilization expenditure up $36 million, or 105.9%. Program expenditure amounted to 18.8% of Gross Domestic Product in 1986.

Actual expenditure was $76 million, or 2.0%, above budget with the increase largely accounted for by higher expenditure for Hydro Rate Stabilization ($34 million), Health and Community Services expenditure ($32 million) and Public Debt ($29 million). These increases were partly offset by below–budget expenditure in other categories.

Total revenue in 1986–87 amounted to $3,387 million, an increase of $270 million, or 8.7% from $3,117 million in 1985–86. Federal transfers for equalization, health and higher education and other purposes were $16 million lower than the budget estimate. Corporate income taxes were $27 million lower and personal income taxes were $40 million higher than the budget estimate mainly as a result of revised federal estimates and prior year adjustments. As well, greater than anticipated growth in Manitoba collections contributed to an increase in actual total revenue of $7 million, or 0.2% over the budget estimate of $3.380 million.

In 1986–87, the net budgetary requirement was $559 million, or $31 million higher than in 1985–86.

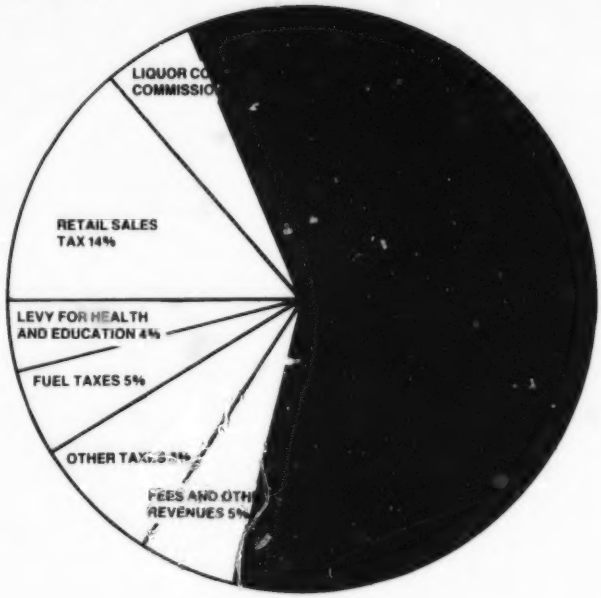




Direct and Guaranteed Debt

The combined Direct and Guaranteed Debt of the Province increased at a rate of 11.8% in 1986–87 with a net increase of $860 million to reach a level of $8,163 million after deduction of accumulated Sinking Funds and with foreign currency debt valued at exchange rates in effect at the time borrowing took place. The compound annual growth rate for the ten–year period from March 31, 1977 to March 31, 1987 was 9.7%. When the foreign currency debt is expressed in terms of exchange rates in effect on March 31, 1987, the outstanding Direct and Guaranteed Debt of the Province before deduction of Sinking Funds amounted to $10,747 million.

MAJOR REVENUE SOURCES — 1986–87



The revenue of the Province includes its own taxation levies, a variety of fees, licences and charges, profits derived from the Liquor Control Commission and payments from the Federal Government under fiscal arrangements and shared cost programs. It does not include cash received as the proceeds from borrowing nor does it include revenues earned by Crown Corporations, Agencies, Boards and Commissions, with the exception of the Liquor Control Commission.

In the 1986 Budget, revenue for the 1986–87 fiscal year was estimated at $3,380 million. By year–end, actual revenue amounted to $3,387 million or $7 million more than the budget estimate.

Approximately 66% of the Province's total revenue in 1986–87 was derived from its own sources, with the balance attributable to federal transfers. The following is a summary of the major revenue sources.

"OWN SOURCE" REVENUE

Own source revenue comprises individual and corporate income taxes collected on behalf of the Province by the Federal Government which totalled $879 million in 1986–87, as well as Manitoba collections of other taxes and revenue from other sources totalling $1,347 million in 1986–87 and includes such items as the retail sales tax, revenue from the Liquor Control Commission, automobile and motor carrier licenses and fees.

INCOME TAXES

Individual income tax, which totalled $760 million in 1986–87, remains the largest single revenue source for the Manitoba Government. The Manitoba individual income tax basic rate is 54% of basic federal tax with a 20% surtax payable on taxable income in excess of $25,000. The tax is collected for the Province by the Federal Government under a long–standing agreement. The Federal Government makes instalment payments to the Province during the year based on the estimated revenue for the year. Adjustments are also made for prior years as information on actual collections becomes available.

Corporation income tax revenue in 1986–87 totalled $119 million. As in the case of the individual income tax, the corporation income tax is collected for the Province by the Government of Canada.

MANITOBA COLLECTIONS

RETAIL SALES TAX

The Province also obtains revenue from a range of taxes on the sale and use of various goods and certain services. The most significant of these taxes is the Retail Sales Tax, which yielded $463 million in 1986–87. The general Manitoba sales tax rate under the Retail Sales Tax Act and the Revenue Act, 1964, Part I for 1986–87 was 6%.

LEVY FOR HEALTH AND POST-SECONDARY EDUCATION

The Health and Post-Secondary Education Levy resulted in revenue of $127 million for 1986-87. For the period April 1, 1986 to December 31, 1986 the levy was 1.5% of the total compensation paid by employers except that all employers with annual payrolls under $50,000 are exempt and the levy is applied at reduced rates to payrolls between $50,000 and $75,000. There was a change effective January 1, 1987 whereby employers with payrolls under $100,000 are exempt from the levy and the levy is applied at reduced rates to payrolls between $100,000 and $150,000.

FUEL TAXES

Gasoline Tax collections in 1986-87 totalled $116 million and Motive Fuel Tax totalled $57 million.

LIQUOR CONTROL COMMISSION

Profits from the Liquor Control Commission totalled $142 million in 1986-87.

FEDERAL TRANSFERS

Approximately 34% of the Province's total revenue in 1986-87 was attributable to Federal transfer payments which take two forms. Unconditional transfers involve general-purpose payments designed to assist in supporting a broad range of provincial services. Conditional transfers involve payments to help cover part of the costs of particular programs provided by the Province.

Unconditional Transfers

The two largest Federal unconditional transfer programs are the Equalization Program and the Established Programs Financing for Health and Higher Education, both of which were adversely affected by amendments to Federal Legislation for 1982-83 and subsequent years.

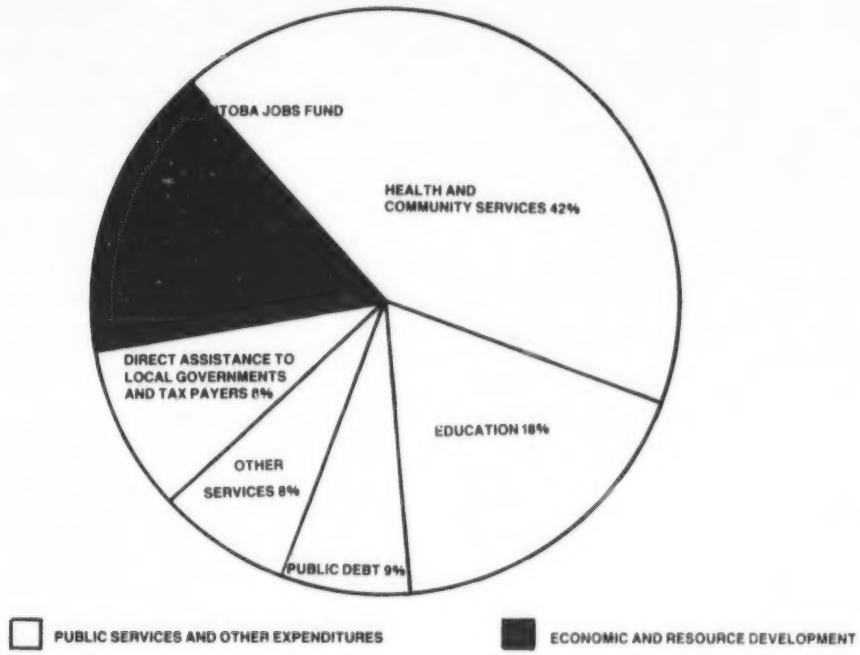
Under the Equalization Program, the Federal Government provides payments to a number of Provinces to supplement their per capita revenue from a broad range of their "own source" revenue. The payments which Provinces receive each year reflect both Federal estimates of entitlements for the current year and adjustments for prior years based on revised calculations of tax bases, tax rates and population. In 1986-87, Manitoba's Equalization cash receipts were $444 million through the formula in effect since 1982, plus an additional $65 million Supplementary Equalization payment by which the Federal Government recognized the continuing shortfall between Manitoba's fiscal need compared to that of other provinces, on one hand, and the actual provisions of the 1982 Equalization formula, on the other.

The other major general-purpose transfer payment included in this category is the cash transfer for financing Health and Post-Secondary Education. This "block funding" transfer is made available for general health and post-secondary education program purposes but is not calculated in relation to provincial costs for such programs. Contributions under this program are made on a per capita basis and are adjusted in line with changes in the growth rate of the Gross National Product. Federal legislation effective for the 1986-87 and subsequent fiscal years, reduced the growth rate by 2% annually, with the result that Manitoba's cash transfer entitlements under this program grew by only 3.6%. The Established Programs cash receipts in 1986-87 totalled $418 million.

Conditional Transfers

In 1986-87, the Province received $234 million from the Federal Government through a variety of cost-sharing agreements under which the Federal Government reimburses the Province for a portion of expenditure incurred on specific programs. The largest of these programs provide Federal support for social assistance and social services under the Canada Assistance Plan, manpower training under agreements with the Canada Employment and Immigration Commission, and economic development under a series of agreements within the Federal Department of Regional Industrial Expansion.

MAJOR EXPENDITURE CATEGORIES — 1986–87



The Provincial Expenditure of a particular fiscal year consists of all payments made from the voted and statutory appropriations of that fiscal year. This total includes both "current" or "operating" expenditure as well as expenditure on items of a "capital" nature.

Expenditure Authority

"Voted" appropriations accounted for 89% of the 1986–87 expenditure. These amounts were expended on the authority of a supply vote in the Legislature or by special warrant approved by the Lieutenant Governor of Manitoba. Statutory appropriations, which accounted for the balance of the expenditure, were made on the authority of various provincial statutes and included such items as debt servicing costs and payments for hydro rates stabilization.

The total expenditure authority available to the Government for the 1986–87 fiscal year was $4,038 million. Actual expenditure for the year totalled $3,946 million or $92 million less than the total authority. Authority which is not utilized in a fiscal year lapses and cannot be carried forward to the following year.

Major Expenditure Categories

Departmental expenditure for 1986–87 is classified in the following Major Expenditure Categories:

HEALTH AND COMMUNITY SERVICES

Expenditure in this category amounted to $1,678 million or 42% of the provincial expenditure in 1986–87. Included in this category are expenditures by the Departments of Health, Community Services, Employment Services and Economic Security and Housing.

The expenditure by the Department of Health amounted to $1,238 million in 1986–87. Health is the largest department in the Government and is responsible for a broad range of programs, many of which are administered through the Manitoba Health Services Commission. Programs administered through the Manitoba Health Services Commission are the Hospital Program, for $672 million, the Medical Program, for $238 million, the Personal Care Home Program, for $156 million, and the Pharmacare Program for $29 million. The Department also provided institutional care for the mentally ill at a cost of $34 million.

Expenditure by the Department of Community Services totalled $186 million. The largest portion of these funds were required for Child and Family Services programs for $91 million, Community and Social Services for $54 million and Corrections and Probation Services for $36 million.

The Department of Employment Services and Economic Security had expenditures in this category of $213 million for various forms of social programs. These included the Social Allowances Program for $172 million, the Manitoba Supplement for Pensioners for $7 million and the Child Income Support Program for $7 million.

Expenditure by the Department of Housing totalled $41 million in 1986–87. This total included expenditures to the Manitoba Housing and Renewal Corporation for $24 million, Grants and Subsidies for $5 million and the Critical Home Repair Program for $1 million.

EDUCATION

Education is the second largest department of the Government, with expenditure totalling $696 million or 18% of the total provincial expenditure. Financial support is provided through the Department both to Public Schools for $399 million and to Post-Secondary Adult and Continuing Education, including the Province's Community Colleges for $64 million and its Universities through the Universities Grants Commission for $162 million.

ECONOMIC AND RESOURCE DEVELOPMENT

Expenditure in this category amounted to $523 million or 13% of the total provincial expenditure in 1986-87. Included in this category are programs designed to sustain and encourage economic and resource development.

Highways and Transportation

Expenditure by the Department of Highways and Transportation totalled $197 million in 1986-87. Approximately $84 million of this total was expended on the continued construction of the highway system to service existing and new industries, resources and tourism, while an additional $69 million was expended on the maintenance program for the primary and secondary road system.

Natural Resources

Expenditure by the Department of Natural Resources totalled $83 million in 1986-87. This total included major expenditures for parks, water resources, forestry and other services.

Northern Affairs

Expenditure by the Department of Northern Affairs totalled $28 million in 1986-87. This total includes $12 million expended under the Canada-Manitoba Northern Development Agreement.

Agriculture

Department of Agriculture expenditure totalled $67 million, covering a broad range of services to the extremely important agricultural sector of the economy.

Other

Significant expenditures by other departments in this policy field in 1986-87 were made by Culture, Heritage and Recreation for $21 million, Business Development and Tourism for $18 million, Energy and Mines for $12 million, Environment and Workplace Safety and Health for $12 million, Industry, Trade and Technology for $9 million and the Hydro Rates Stabilization program for $70 million.

MANITOBA JOBS FUND

Manitoba Jobs Fund expenditure totalled $69 million or 2% of the total provincial expenditure in 1986-87. Approximately $23 million of this total was expended on projects of a capital nature. Overall, expenditures in this category included expenditure for Economic Development of $41 million, Housing and Urban Development of $22 million and Community Capital Projects of $6 million.

DIRECT ASSISTANCE TO LOCAL GOVERNMENTS AND TAXPAYERS

Expenditure in this category amounted to $315 million or 8% of the total provincial expenditure in 1986-87. The largest share of this total was expended by the Departments of Municipal and Urban Affairs whose combined expenditure totalled $96 million in 1986-87. The total includes direct assistance to municipalities through such programs as block funding for the City of Winnipeg and grants in lieu of taxes. Unconditional income tax transfers to municipal governments in the amount of $36 million for 1986-87 are not included in these totals, but are shown as reductions from personal and corporation income tax revenue.

Income assistance expenditure for certain major programs, including the Property Tax Credit Program, the Pensioners' School Tax Assistance Program and the Cost of Living Tax Credit Program totalled $205 million in 1986-87. These Programs are the responsibility of the Department of Finance which administers them in conjunction with the Department of Municipal Affairs, the Manitoba Housing and Renewal Corporation and Revenue Canada.

OTHER SERVICES

Included in this category are expenditures for the provision of Government space requirements, financial management and other central services of the Government. Expenditures in 1986-87 amounted to $312 million or 8% of the total provincial expenditure. The total includes expenditure by the Departments of Government Services for $127 million, Attorney General for $77 million, Civil Service for $51 million, Finance for $27 million, Legislation and Executive Council for $13 million, Labour for $9 million, Consumer and Corporate Affairs for $4 million and Flood Control and Emergency Expenditures for $4 million.

PUBLIC DEBT

Expenditure in this category amounted to $352 million or 9% of the total provincial expenditure in 1986-87. This is a net expenditure after deduction of interest revenue received by the Province on loans and advances and from the investment of the Government's cash flow and sinking funds.

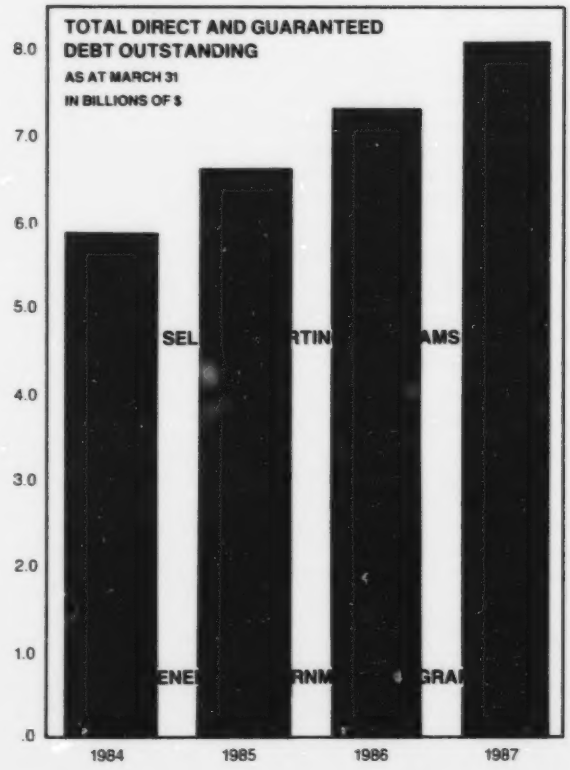
DIRECT AND GUARANTEED DEBT

The Province of Manitoba incurs "direct debt" through the issuance of bonds, debentures and other securities to secure funds for its own needs as well as for the capital requirements of certain of its Agencies. Debt incurred on behalf of these Agencies is generally self-supporting so that any debt service charges paid on this debt are recovered directly from the Agency.

In addition to having direct debt, the Province also acts as a guarantor of securities issued by various other entities. This "guaranteed debt" is largely self-supporting although a part of it is on behalf of universities and hospitals that are serviced in whole or in part from Government appropriations.

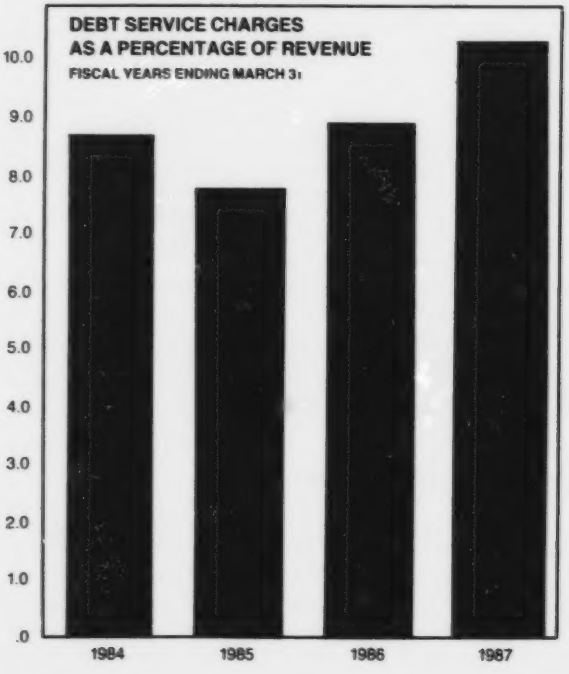
There is a requirement to maintain sinking funds for the repayment of both "direct debt" and "guaranteed debt" of the Province. These sinking funds are generally deducted from the applicable debt when determining the outstanding debt of the Province.

At March 31, 1987, the combined direct and guaranteed debt of the Province less cash and securities held in the sinking fund for debt redemption reached a level of $8,163 million of which $4,628 million represented debt issued for self-supporting programs. During the fiscal year ended March 31, 1987, the combined debt increased 11.8%.



DEBT SERVICE CHARGES

In the fiscal year ended March 31, 1987, the cost of servicing debt issued for the purpose of general Government programs reached a level of $352 million and represented approximately 10.4% of gross provincial revenue.



DEBT REFINANCING

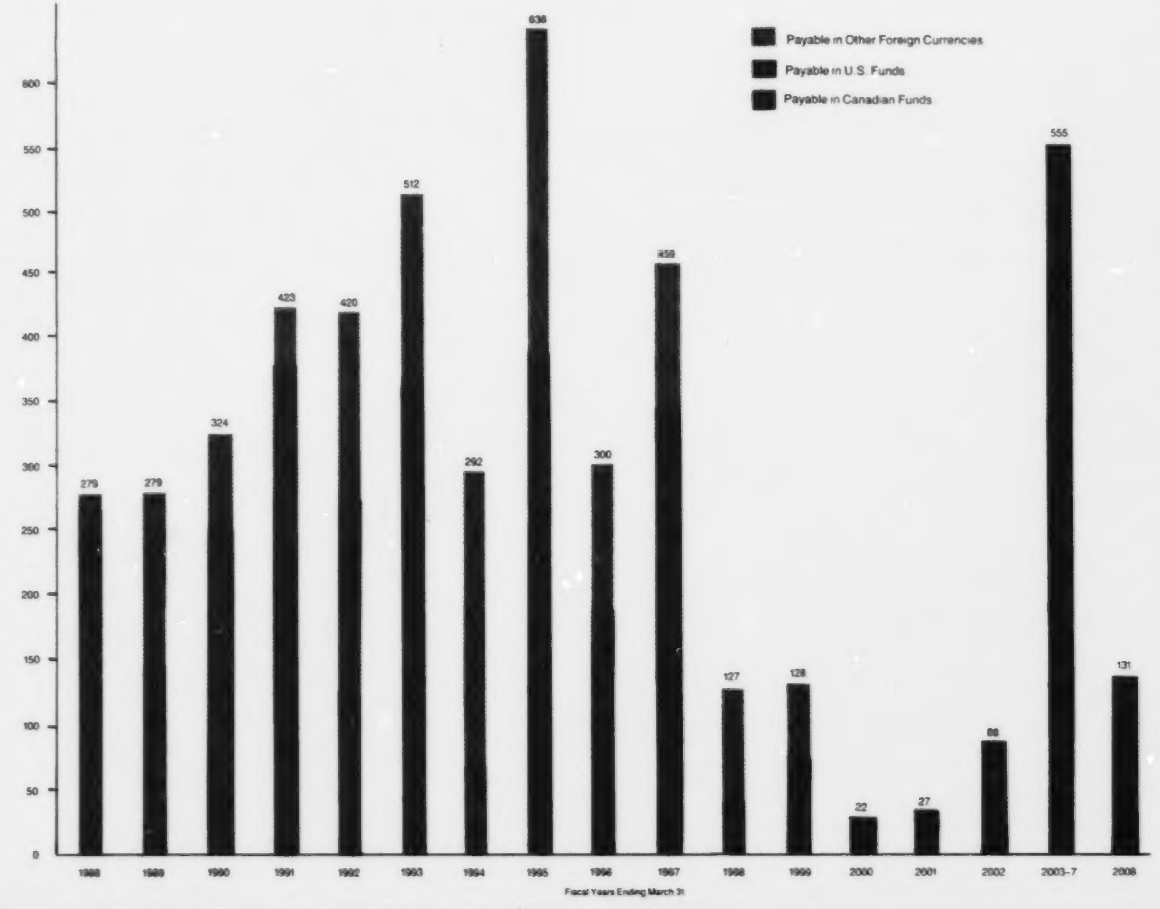
During the next decade, $6,204 million of the combined direct and guaranteed debt matures against which it is estimated that the Province will have accumulated approximately $2,278 million of sinking funds to be applied against such maturities leaving approximately $3,926 million of the debt to be refunded. These figures are based on the value of the debt calculated at foreign exchange values on date of issue for all foreign debt and does not include $325 million in Treasury Bills which are assumed to be continually refinanced and $399 million Manitoba Properties Inc. Shares. Commencing July 1, 1989 in each calendar quarter, Manitoba Properties Inc. will attempt to purchase ¾ of 1% of the shares outstanding as at June 30, 1989.

VALUATION OF FOREIGN DEBT

At March 31, 1987, approximately 50% of the total debt (direct and guaranteed) was payable in foreign currencies. Commencing with the 1986 fiscal year, the Province began amortizing the unrealized foreign currency gains and losses. The Statement on Page 12 shows the value of the Province's total debt at March 31, 1987 exchange rates, the amortized book value and the unamortized foreign exchange fluctuation at March 31, 1987.

Direct and Guaranteed Debt

Refunding Requirements (Net of Sinking Funds) by Fiscal Year Based on the Canadian Dollar Equivalent on Date of Issue for all Foreign Debt



GOVERNMENT OF THE PROVINCE OF MANITOBA

STATEMENT OF VALUATION AND PURPOSE OF BORROWINGS

as at March 31, 1987
(in thousands)

Valuation of Debt	Par Value	Canadian Dollar Equivalent at Date of Issue	as at March 31, 1987 Exchange Rate	Canadian Dollar Valuation	Amortized Book Value	Unamortized Foreign Exchange Fluctuation
Direct Debt Payable in:						
Canadian Dollars	3,751,770	$ 3,751,770	$1.00	$ 3,751,770	$ 3,751,770	$ –
U.S. Dollars	1,478,700	1,851,264	1.3051	1,929,851	1,936,703	(6,852)
Swiss Francs	1,413,000	878,242	0.8671	1,225,212	886,812	338,400
European Units of Account	3,000	3,240	3.5413	10,624	6,655	3,969
Japanese Yen (Note 1)	124,000,000	676,347	0.0087279	1,082,264	738,334	343,930
Deutsche Marks	900,000	491,786	0.7245	652,050	493,578	158,472
Total Direct Debt		$ 7,652,649		$ 8,651,771	$ 7,813,852	$ 837,919
Guaranteed Debt Payable in:						
Canadian Dollars	1,005,901	$ 1,005,901	$1.00	$ 1,005,901	$ 1,005,901	$ –
U.S. Dollars	773,000	772,490	1.3051	1,008,842	891,944	116,898
Swiss Francs	80,000	54,280	0.8671	69,368	57,007	12,361
Deutsche Marks	15,000	4,593	0.7245	10,868	7,173	3,695
Total Guaranteed Debt		$ 1,837,264		$ 2,094,979	$ 1,962,025	$ 132,954
Total Direct & Guaranteed Debt		$ 9,489,913		$ 10,746,750	$ 9,775,877	$ 970,873
Purpose of Debt						
General Government Programs		$ 4,457,901		$ 5,144,994	$ 4,558,190	$ 586,804
Other:						
The Manitoba Hydro–Electric Board		$ 3,200,355		$ 3,750,996	$ 3,378,469	$ 372,527
The Manitoba Telephone System		734,221		753,324	741,782	11,542
Manitoba Properties Inc.		399,143		399,143	399,143	–
The Manitoba Agricultural Credit Corporation		209,591		209,591	209,591	–
Manitoba Jobs Fund Programs		135,541		135,541	135,541	–
Manfor Ltd.		115,142		115,142	115,142	–
The Manitoba Housing & Renewal Corporation		113,041		113,041	113,041	–
The Manitoba Beef Stabilization Fund		37,600		37,600	37,600	–
University of Manitoba		17,065		17,065	17,065	–
The Manitoba Water Services Board		16,314		16,314	16,314	–
The Manitoba Oil & Gas Corporation		15,000		15,000	15,000	–
Federal–Provincial Loan Agreements		9,574		9,574	9,574	–
Emergency Interest Rate Relief Program		9,000		9,000	9,000	–
Manitoba Mineral Resources Ltd.		8,400		8,400	8,400	–
Energy Conservation Loan Fund		2,820		2,820	2,820	–
Venture Manitoba Tours Ltd.		2,588		2,588	2,588	–
The Manitoba Hog Income Stabilization Plan		2,400		2,400	2,400	–
Manitoba Data Services		1,662		1,662	1,662	–
Municipal, Hospital & Other Indebtedness		1,055		1,055	1,055	–
Venture Capital Program		1,000		1,000	1,000	–
Tourism Agreement 1985–90		500		500	500	–
		$ 5,032,012		$ 5,601,756	$ 5,217,687	$ 384,069
Total Direct & Guaranteed Debt		$ 9,489,913		$ 10,746,750	$ 9,775,877	$ 970,873

NOTE 1: The March 31, 1987 Canadian Dollar Valuation of the Province's Japanese Yen Debt is based on 115.0 billion Japanese Yen converted at a rate of $.008964 Canadian and 39.4 million U.S. dollars (representing 9.0 billion Japanese Yen covered under currency exchange agreements) converted at a rate of 1.3051 Canadian. Calculation may differ due to rounding.

Financial Statements

for the year ended

March 31, 1987

THE PUBLIC ACCOUNTS

"Public Accounts" is the term commonly used to describe the complete set of financial statements prepared annually by the Government of the Province of Manitoba. The requirement for the preparation of the Public Accounts is statutory, in accordance with the Financial Administration Act, which is Chapter F55 of the Continuing Consolidation of the Statutes of Manitoba. The Public Accounts are published in two volumes. The first volume contains the Financial Statements for the fiscal year, which are prepared in accordance with the accounting policies of the Government. It includes, as well, detailed accounting information and the Provincial Auditor's Report on the Public Accounts. The second volume contains Supplementary Information regarding details of Salaries and Wages paid to Employees, Cash Payments to Corporations, Firms, Individuals, Other Governments and Government Agencies and Cash Payments from Departmental Appropriations during the fiscal year.

ACCOUNTING POLICIES

The accounting policies of the Government are a set of standards or practices that the Government has adopted for purposes of accounting and financial reporting. The practices followed by the Manitoba Government are those generally accepted for accounting and financial reporting by Governments in Canada, although some differences exist between Provinces. Any changes in accounting policies from those followed in the preceding year must be reported in the Public Accounts. The accounting policies followed by the Government of the Province of Manitoba with respect to the preparation of the financial statements included in the Public Accounts as well as those in this publication are reprinted on page 30. This information is organized into two sections:

Statement
This is a brief summary of the basic accounting policies followed by the Government.

Application
This section describes in more detail the application of the accounting policies to the Revenue and Expenditure of the fiscal year and to the Asset and Liability Accounts reported at fiscal year end.

STATEMENTS INCLUDED IN THIS FINANCIAL REPORT

The financial transactions of the Government are recorded in "The Consolidated Fund". The activities of "The Consolidated Fund" are divided into the "Operating Fund", which records the operational activities of the Government, and the "Trust Fund", which records the various categories of trust monies administered by the Government. This publication presents the Summary Financial Statements which are prepared for the Operating Fund and published in the Public Accounts. The trust administration activities of the Government are reflected in these statements only to the extent that trust money is held and invested through the Operating Fund by the Minister of Finance.

The following provides a brief description of the Summary Financial Statements.

STATEMENT OF FINANCIAL POSITION — OPERATING FUND

This statement summarizes the Province's financial condition in terms of its financial assets and liabilities at the end of the fiscal year and reports the amount by which the liabilities of the Province exceed its financial assets.

Financial assets are those assets on hand at the end of the fiscal year which could provide resources to discharge existing liabilities or finance future operations of the Government. Accordingly financial assets do not include inventories of supplies, equipment or any other acquired physical assets that are intended for consumption in the normal course of operations and that do not normally provide resources to discharge existing liabilities or finance future operations.

The excess of liabilities over financial assets provides a measure of the future revenues required to pay for past transactions and events. This amount results essentially from an accumulation of net expenditures for lasting tangible assets, lasting intangible benefits and the accumulated excess of expenditure over revenue from past operations, all of which were funded by borrowings to be serviced from future revenues.

STATEMENT OF REVENUE AND EXPENDITURE

This statement provides a summary of the Province's revenue by source and type and expenditure by nature and purpose. Amounts that are taken to the Excess of Liabilities Over Financial Assets Account, including the write-down or write-off of assets or other adjustments, are also reported on this statement.

In accordance with the Government's accounting policies, expenditures related to the acquisition or construction of physical assets are treated as part of the total expenditure for the fiscal year as reported on the Statement of Revenue and Expenditure. As a result, a substantial part of the Net Budgetary Requirement reported on that statement is required for this type of expenditure. The Net Operating Requirement of the Government, exclusive of Capital Related Expenditure, is presented on schedule 1 of the Summary Financial Statements.

STATEMENT OF CHANGES IN FINANCIAL POSITION — OPERATING FUND

This statement reports the effects of the Province's activities on its cash resources. It discloses the cash and equivalents required during the fiscal year for operating and investing activities as well as how the financing was provided to meet this requirement.

SCHEDULES AND NOTES TO THE FINANCIAL STATEMENTS

Schedules and Notes are integral to the financial statements and are used to report information required for a fair presentation of the government's financial condition and results of operations. They are also used to clarify and explain items in the financial statements and are cross-referenced to the specific financial statement items to which they relate.

GOVERNMENT OF THE PROVINCE OF MANITOBA

STATEMENT OF FINANCIAL POSITION - OPERATING FUND

AS AT MARCH 31, 1987
(with comparative figures for March 31, 1986)

Schedule No		($ millions) 1987	1986
	FINANCIAL ASSETS		
	Cash and Equivalents	$ 625	$ 552
2.	Revenue Receivable	137	138
3.	Loans and Advances		
	Crown Corporations, Agencies, Boards and Commissions	2,985	2,523
	Other Governments	10	11
	Others	84	86
4.	Long-Term Investments	158	286
	Valuation Allowance	(58)	(193)
	Total Financial Assets	$ 3,941	$ 3,403
	LIABILITIES		
	Amount owing to the Trust Fund	$ 570	$ 488
5.	Accounts Payable, Accrued Charges and Funds Subject to Call	368	294
6.	Borrowings (Note 1):		
	Bonds and Debentures	4,858	3,912
	Canada Pension Plan	1,223	1,172
	Government of Canada	123	155
	Treasury Bills	325	325
	Provision for Unrealized Foreign Currency Losses	278	209
	Total Liabilities	$ 7,745	$ 6,555
	EXCESS OF LIABILITIES OVER FINANCIAL ASSETS AND OTHER OBLIGATIONS HELD BY THE PROVINCE CONSIDERED TO BE SIMILAR IN NATURE		
	Serial Debentures of School Divisions and Districts	$ 162	$ 176
	Securities Received from Sale of Land and Buildings (Notes 2 and 3)	182	182
	Excess of Liabilities over Financial Assets	3,460	2,794
	Total Excess of Liabilities Over Financial Assets and Similar Items	$ 3,804	$ 3,152

Information concerning the Government's Guaranteed and Indirect Liabilities, Financial Commitments and Contingent Liabilities can be found in the Schedules and Notes To The Financial Statements.

Trust Fund Assets/Liabilities at March 31, 1987 were $1,696 million (1986–$1,587 million). Further details are displayed in Note 4.

GOVERNMENT OF THE PROVINCE OF MANITOBA

STATEMENT OF REVENUE AND EXPENDITURE

For the Year Ended March 31, 1987
(with comparative figures for the year ended March 31, 1986)

($ millions)

	1987 Budget Estimate	1987 Actual	1986 Actual
REVENUE			
Manitoba Collections			
Retail Sales Tax	$ 465	$ 463	$ 437
Fuel Taxes	176	173	164
Liquor Commission	145	142	139
Levy for Health and Education	123	127	119
Other Taxes	256	258	208
Fees and Other Revenue	172	184	167
Income Taxes			
Corporation Income Tax	146	119	127
Individual Income Tax	720	760	650
Federal Transfers			
Equalization	511	509	470
Health and Higher Education	434	418	410
Shared-Cost and Other	232	234	226
TOTAL REVENUE	$ 3,380	$ 3,387	$ 3,117
EXPENDITURE (SCHEDULE 7)			
Health and Community Services	$ 1,646	$ 1,678	$ 1,555
Education	697	696	663
Economic and Resource Development	544	523	530
Manitoba Tax Credit Plans	204	205	199
Direct Local Government Assistance	115	110	115
Public Debt	323	352	273
Hydro Rates Stabilization	36	70	34
Consumer Services, Public Protection and Other Government Services	305	312	276
TOTAL EXPENDITURE	$ 3,870	$ 3,946	$ 3,645
NET BUDGETARY REQUIREMENT (SCHEDULE 1)	$ 490	$ 559	$ 528
AMOUNTS TAKEN TO EXCESS OF LIABILITIES OVER FINANCIAL ASSETS ACCOUNT:			
NET BUDGETARY REQUIREMENT (AS ABOVE)		$ 559	$ 528
SALE OF LAND AND BUILDINGS		–	(252)
WRITE-DOWN (OFF) OF LOANS, ADVANCES AND LONG-TERM INVESTMENTS (NOTE 9)		185	53
PRIOR PERIOD ADJUSTMENTS RELATED TO:			
PUBLIC SCHOOLS SUPPORT (NOTE 10)		50	–
FOREIGN CURRENCY, INVESTMENTS AND DEBT TRANSACTIONS		–	189
UNFUNDED LIABILITY FOR MANITOBA DEVELOPMENT CORPORATION LOSSES (NOTE 11)		7	–
INCREASE (DECREASE) IN VALUATION ALLOWANCE (NOTE 12)		(135)	20
TOTAL INCREASE IN EXCESS OF LIABILITIES OVER FINANCIAL ASSETS		$ 666	$ 538

GOVERNMENT OF THE PROVINCE OF MANITOBA

STATEMENT OF CHANGES IN FINANCIAL POSITION – OPERATING FUND

For the Year Ended March 31, 1987
(with comparative figures for the year ended March 31, 1986)

($ millions)

	1987 Budget Estimate	1987 Actual	1986 Actual
Beginning Cash and Equivalents		$ 552	$ 636
Operating Transactions:			
Net Budgetary Requirement	$ (490)	$ (559)	$ (528)
Prior Period adjustment related to:			
Public Schools Support	–	(50)	–
Unfunded Liability for Manitoba Development Corporation Losses	–	(7)	–
Non–Cash Items included in Net Budgetary Requirement and Prior Period Adjustments:			
Decrease (Increase) in Revenue Receivable	–	1	(2)
Increase in Accounts Payable, Accrued Charges and Funds Subject to Call	–	74	54
Provision for Foreign Currency Losses	57	51	16
Amortization of Debt Discount	6	7	5
Cash and Equivalents Required For Operations	$ (427)	$ (483)	$ (455)
Investing Transactions (Note 14):			
Acquired/Made	$ (763)	$ (776)	$ (839)
Redeemed/Realized	199	274	306
Cash and Equivalents Required For Investing	$ (564)	$ (502)	$ (533)
Financing Transactions (Note 14):			
Debt Issued			
Foreign	N.E.	$ 881	$ 759
Domestic	N.E.	499	525
	$ 1,437	$ 1,380	$ 1,284
Debt Redeemed			
Foreign	(71)	(71)	(258)
Domestic	(137)	(168)	(9)
Payment to (from) Provision for Foreign Currency Losses	(12)	18	(62)
Increase in Sinking Funds	(122)	(183)	(212)
	$ 1,095	$ 976	$ 743
Sale of Land and Buildings To Manitoba Properties Inc.	–	–	199
Change in Trust Funds	–	82	(38)
Cash and Equivalents Obtained From Financing	$ 1,095	$ 1,058	$ 904
Change in Cash and Equivalents During Period	$ 104	$ 73	$ (84)
Ending Cash and Equivalents		$ 625	$ 552
Represented by:			
Cash in Bank (Overdraft)		$ (50)	$ (3)
Term Bank Deposits		215	210
Government and Crown Corporation Bills and Notes		719	598
		$ 884	$ 805
Less:			
Uninvested Cash Belonging to Provincial Sinking Fund		259	253
		$ 625	$ 552

 N.E. – Not Estimated

GOVERNMENT OF THE PROVINCE OF MANITOBA

SCHEDULE OF NET OPERATING REQUIREMENT **SCHEDULE 1**

For the Year Ended March 31, 1987

(with comparative figures for the year ended March 31, 1986)

($ millions)

	1987 Budget Estimate	1987 Actual	1986 Actual
NET BUDGETARY REQUIREMENT as reported on the Statement of Revenue and Expenditure	$ 490	$ 559	$ 528
GROSS CAPITAL RELATED EXPENDITURE			
Health and Community Services	$ 34	$ 30	$ 26
Education	26	25	25
Economic and Resource Development	168	160	176
Direct Local Government Assistance	23	20	27
Consumer Services, Public Protection and other Government Services	15	14	23
	$ 266	$ 249	$ 277
NET OPERATING REQUIREMENT	$ 224	$ 310	$ 251

GOVERNMENT OF THE PROVINCE OF MANITOBA

SCHEDULE 2

REVENUE RECEIVABLE

As at March 31, 1987
(with comparative figures for March 31, 1986)

(\$ millions)

	1987	1986
Tax Revenue:		
Retail Sales Tax	\$ 36	\$ 34
Motive Fuel Tax	6	5
Gasoline Tax	9	9
Tobacco Tax	7	6
Revenue Act, 1964	3	3
	\$ 61	\$ 57
Interest Income:		
Province of Manitoba Sinking Fund	\$ 21	\$ 16
Other Investments	9	13
	\$ 30	\$ 29
Government of Canada and Other Governments:		
Shared Cost Programs	\$ 45	\$ 52
Other Income:		
Manitoba Telephone System	\$ 1	\$ –
	\$ 137	\$ 138

GOVERNMENT OF THE PROVINCE OF MANITOBA

LOANS AND ADVANCES

SCHEDULE 3

As At March 31, 1987

(with comparative figures for March 31, 1986)

($ millions)

	Crown Corporations, Agencies, Boards And Commissions	Other Governments	Others	1987 Total	1986 Total
When Due:					
On Demand	$ 197	$ –	$ 47	$ 244	$ 207
1–5 Years	1,118	4	17	1,139	1,014
6–10 Years	1,205	4	12	1,221	1,094
11–20 Years	222	2	8	232	311
Over 20 Years	375	–	–	375	109
Totals	$ 3,117	$ 10	$ 84	$ 3,211	$ 2,735
Less: Sinking Funds	132	–	–	132	115
	$ 2,985	$ 10	$ 84	$ 3,079	$ 2,620
Valuation Allowance	21	–	34	55	62
	$ 2,964	$ 10	$ 50	$ 3,024	$ 2,558

GOVERNMENT OF THE PROVINCE OF MANITOBA

SCHEDULE 4

LONG-TERM INVESTMENTS

As at March 31, 1987

(with comparative figures for March 31, 1986)

($ millions)

	Crown Corporations	Others	1987 Total	1986 Total
Shares:				
Common	$ 39	$ 6	$ 45	$ 41
Preferred	109	–	109	241
Debentures	4	–	4	4
	$ 152	$ 6	$ 158	$ 286
Valuation Allowance	3	–	3	131
Net	$ 149	$ 6	$ 155	$ 155

GOVERNMENT OF THE PROVINCE OF MANITOBA

SCHEDULE 5

ACCOUNTS PAYABLE, ACCRUED CHARGES AND FUNDS SUBJECT TO CALL

As at March 31, 1987
(with comparative figures for March 31, 1986)

($ millions)

	1987	1986
Accounts Payable	$ 169	$ 156
Accrued Charges Interest accrued on Provincial Borrowings and Trust Funds	157	136
Public Schools Support (Note 10)	35	–
Unfunded Liability for Manitoba Development Corporation Losses (Note 11)	7	–
Funds Subject to Call re: Shared Cost Programs	–	2
	$ 368	$ 294

GOVERNMENT OF THE PROVINCE OF MANITOBA

SCHEDULE OF LIABILITIES FOR BORROWINGS

As At March 31, 1987
(with comparative figures for March 31, 1986)

($ millions)

Fiscal Year of Maturity	Bonds and Debentures Cdn $	Bonds and Debentures US $	Bonds and Debentures Other	Canada Pension Plan Cdn $	Govt of Canada Cdn $	Treas Bills Cdn $	Totals 1987	Totals 1986
1987	$ –	$ –	$ –	$ –	$ –	$ –	$ –	$ 530
1988	226	16	14	39	4	325	624	299
1989	76	106	141	42	4	–	369	370
1990	1	285	86	45	5	–	422	422
1991	110	298	67	52	5	–	532	532
1992	40	180	151	54	5	–	430	–
1987–1992	$ 453	$ 885	$ 459	$ 232	$ 23	$ 325	$ 2,377	$ 2,153
1993–1997	$ 968	$ 759	$ 1,366	$ 366	$ 26	$ –	$ 3,485	$ 2,661
1998–2007	43	–	224	1,197	71	–	1,535	1,601
2008–2017	–	207	–	–	19	–	226	49
1993–2017	$ 1,011	$ 966	$ 1,590	$ 1,563	$ 116	$ –	$ 5,246	$ 4,311
Total Borrowings	$ 1,464	$ 1,851	$ 2,049	$ 1,795	$ 139	$ 325	$ 7,623	$ 6,464
Reduced By: Unamortized Debt Issue Costs	2	11	26	–	–	–	39	28
	$ 1,462	$ 1,840	$ 2,023	$ 1,795	$ 139	$ 325	$ 7,584	$ 6,436
Sinking Funds Provided	144	195	128	572	16	–	1,055	872
	$ 1,318	$ 1,645	$ 1,895	$ 1,223	$ 123	$ 325	$ 6,529	$ 5,564

SCHEDULE 6

GOVERNMENT OF THE PROVINCE OF MANITOBA

SCHEDULE 7

EXPENDITURE BY OBJECT

For the Year Ended March 31, 1987
(with comparative figures for the year ended March 31, 1986)

	($ millions) 1987	1986
Personnel Services	$ 552	$ 509
Grants/Transfer Payments	2,172	2,043
Transportation	11	11
Communications	18	20
Supplies and Services	235	210
Social Assistance Related	258	236
Other Operating	29	32
Capital	249	277
Public Debt	352	273
Hydro Rates Stabilization	70	34
	$ 3,946	$ 3,645

GOVERNMENT OF THE PROVINCE OF MANITOBA

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED MARCH 31, 1987

1. BORROWINGS

All borrowings are expressed in Canadian dollars. In the case of foreign borrowings, the par value is converted at the exchange rate in effect at the date of issue or the actual conversion rate of the proceeds. When foreign debt is revalued using the exchange rates in effect at March 31, 1987, total borrowings is increased to $8,622 million ($7,209 million for 1986) before deduction of Sinking Funds.

The weighted average rate of interest based on actual interest payments made during 1986–87 was 11.13% (11.12% for 1985–86).

2. SECURITIES RECEIVED FROM SALE OF LAND AND BUILDINGS

During 1984–85 and 1985–86 the Province sold land and buildings with an aggregate value of $917 million to Manitoba Properties Inc. (MPI). The sale was arranged through two intermediary Crown Corporations, Manitoba Properties Leasing Inc. and Manitoba Properties Management Inc. and resulted in the Province receiving common shares of these two corporations along with promissory notes of MPI and cash as the purchase consideration. The Province has allocated $341 million of the sales proceeds to a special valuation account to reflect the potential diminution of the common shares that could occur as dividends are paid to the preferred shareholders of MPI. The status of the securities and valuation account at March 31st was as follows:

	($ millions) 1987	1986
Shares of Manitoba Properties Leasing Inc.	$ 131	$ 149
Shares of Manitoba Properties Management Inc.	131	149
Promissory Notes of Manitoba Properties Inc.	181	182
	$ 443	$ 480
Less: Special Valuation Account	261	298
	$ 182	$ 182

The value of the common shares and the valuation account have each been reduced by $80 million to March 31, 1987 to reflect the dividends paid by MPI as of its most recent fiscal year–end, January 31, 1987.

If the operations of MPI were consolidated in the financial statements of the Province, these securities would not be reflected as assets because they do not represent claims against other parties. Information regarding the effects of consolidation is provided in the following note.

3. EFFECT OF CONSOLIDATION OF MANITOBA PROPERTIES INC.

The sale and subsequent lease–back of land and buildings to Manitoba Properties Inc. has resulted in ownership by the Province of securities that, if the accounts were consolidated, would no longer appear in the Financial Statements because these are not amounts owing by third parties. Consolidation would have the following effect on the Statement of Financial Position at March 31, 1987 and on the Statement of Revenue and Expenditure for the year ended March 31, 1987:

a) As indicated, Securities Received From Sale of Land and Buildings in the amount of $182 million would be eliminated.

b) Promissory notes of $17 million from Manitoba Properties Inc., shown under Loans and Advances, would be eliminated. These funds were advanced to cover administrative costs of $6 million and capital expenditures of $11 million.

c) Liabilities would be increased by $399 million to reflect the outstanding preferred shares of Manitoba Properties Inc. (with an equivalent decrease in guaranteed and indirect liabilities).

d) The aggregate of these amounts, totalling $598 million, would be an increase to the Excess of Liabilities Over Financial Assets account. This amount exceeds the total of amounts that were originally credited to the excess account at the time of sale by $22 million. This difference results primarily from capital expenditures and share issuance and administrative costs incurred by Manitoba Properties Inc.

e) The net effect on the expenditure accounts of the Government would be an increase in public debt costs of $60 million, an increase in capital expenditure of $11 million and a decrease in expenditure for other government services of $59 million. (The amounts for March 31, 1986 are an increase in public debt costs of $46 million and a decrease in expenditure for other government services of $43 million).

4. TRUST FUND

The Operating Fund financial statements show an amount owing to the Trust Fund which primarily represents surplus cash of Crown Corporations, Agencies, Boards and Commissions on deposit with the Minister of Finance for investment but not specifically invested. The assets and liabilities of the Trust Fund itself as at March 31st are as follows:

	($ millions) 1987	1986
ASSETS		
Amounts due from Operating Fund	$ 570	$ 488
Cash and Investments	586	569
Total Trust Assets	$ 1,156	$ 1,057
LIABILITIES		
Trust Fund Balances	$ 1,156	$ 1,057
Total Trust Liabilities	$ 1,156	$ 1,057

In addition, the Trust Fund includes trust funds where the Government responsibility is custodial in nature. As at March 31, 1987 and March 31, 1986 these funds are reported as $540 million and $530 million, respectively.

5. GUARANTEED AND INDIRECT LIABILITIES

Debt issued by Crown Corporations, Agencies, Boards and Commissions which is guaranteed by the Government as at March 31st are as follows:

	($ millions) 1987	1986
Self-supporting Debt	$ 1,425	$ 1,531
Debt of Crown Corporations Whose Main Source of Income is the Consolidated Fund	399	399
Debt Serviced in Whole or in Part from the Consolidated Fund	13	13
	$ 1,837	$ 1,943
LESS: Applicable Sinking and Other Related Trust Funds	273	262
	$ 1,564	$ 1,681

6. FINANCIAL COMMITMENTS

The Government has entered into long-term financial arrangements wherein indebtedness has been issued that is not guaranteed by the Government but the funds required for the payment of principal and interest will be either fully or partially provided from appropriations of the Consolidated Fund. As well, the Government has made future commitments against appropriations under long-term contracts which cover the acquisition and/or rental of physical assets. These financial commitments as at March 31st are as follows:

	($ millions) 1987	1986
LONG-TERM FINANCIAL ARRANGEMENTS:		
Hospitals & Personal Care Homes	$ 362	$ 298
Public Schools	219	213
Manitoba Housing and Renewal Corporation	231	232
Manitoba Water Services Board	2	2
Brandon University	3	3
	$ 817	$ 748
FUTURE COMMITMENTS:		
Acquisition of Physical Assets	113	102
Rental of Physical Assets	220	96
	$ 1,150	$ 946

In addition to the approved outstanding debt for Hospitals and Personal Care Homes, lines of credit up to $100 million ($126.5 million as at March 31, 1986) have been approved to finance capital projects currently in process. On completion of these projects, the borrowings will be converted to long-term debt.

7. CONTINGENT LIABILITIES

The Government has provided guarantees for the following and accordingly has a contingent liability in the event of default:

	Maximum Guarantee	Amount Outstanding March 31, 1987	Amount Outstanding March 31, 1986
		($ millions)	
Mortgages	$ 1	$ 1	$ 1
Performance Bonds	53	53	53
Promissory Notes	175	25	126
Bank Loans and Lines of Credit	13	2	18
	$ 242	$ 81	$ 198

This does not include Guarantees that may be provided by Crown Corporations, Agencies, Boards and Commissions under their own separate authority.

8. PENSION LIABILITY

The Province is required by legislation to pay 50% of the pension disbursements made to retired Provincial employees (with the exception of the share payable by Government Agencies for their employees) and to retired teachers. Such payments are charged to departmental appropriations as incurred and no provision is made to fund current or past service obligations of the Province to the Civil Service Superannuation Fund or to the Teachers' Retirement Allowances Fund. The reserves which are presently held in these Funds represent only the employees' obligation towards the total pension liability.

An actuarial valuation and report of the Government's liability to the Civil Service Superannuation Fund was determined as at December 31, 1983. The report also provided a formula to update the liability on an annual basis. In accordance with the formula adopted by the actuary, the Government's actuarial liability to the Civil Service Superannuation Fund has been calculated at approximately $315 million as at December 31, 1986 (approximately $285 million as at December 31, 1985). The liability of the Province to the Teachers' Retirement Allowances Fund has not been established by an actuarial valuation. The reserve which is held in the Teachers' Retirement Allowances Fund, representing the employees' obligation towards the total pension liability, amounted to $474 million as at December 31, 1986 ($413 million as at December 31, 1985). The Province's liability should approximate these amounts.

9. WRITE DOWN (OFF) OF LOANS, ADVANCES AND LONG-TERM INVESTMENTS

Loans, advances and investments in the aggregate of $185 million have been deemed non-recoverable by the Province and have been written-down or written-off pursuant to authority provided under the Financial Administration Act. This adjustment recognizes a reduction in the value of assets as the result of cumulative operating losses and loan forgiveness provisions in certain agreements and is considered a preliminary requirement to the implementation of a new policy for recording losses on loans, advances and investments as described under "Changes In Accounting Policy". A Valuation Allowance was previously provided at March 31, 1986 for many of the amounts now written-down (off). Details of the adjustment and the Valuation Allowance previously provided are as follows:

	($ millions) March 31, 1986 Amount Adjusted	March 31, 1986 Valuation Allowance
LOANS AND ADVANCES:		
Manitoba Development Corporation related to:		
Divestiture of Flyer Industries Limited	22	–
Development Agreements (Loan Forgiveness)	8	2
A. E. McKenzie Co. Ltd.	7	7
Manitoba Housing & Renewal Corporation	13	2
Other	2	2
	52	13
INVESTMENTS IN SHARE CAPITAL:		
Manfor Ltd.	128	126
Venture Manitoba Tours Ltd.	2	2
Other	3	2
	133	130
	185	143

Notwithstanding the removal of these amounts from the accounts of the Province, the right to recover these monies has not been extinguished and the Province will enforce collection or reinstatement of the balances should the prospect for recovery change.

10. PUBLIC SCHOOLS SUPPORT

An accounting policy change was made during the fiscal year in order that the Province's share of Public Schools Support costs would be recorded on an accrual basis in future years. The purpose of the change is to reflect these costs in the fiscal year in which the expenditures are being incurred by the School Divisions.

Entries were made to adjust the financial statements in preparation for the adoption of the accrual basis in the 1987–88 fiscal year. An adjustment of $50 million has been recorded at March 31, 1987 to account for the net cumulative effect of the carry forward of the year–end liability in previous fiscal years. Of this amount $15 million was paid to the Public Schools Finance Board during 1986–87 leaving an accrued liability of $35 million which is reported in the Statement of Financial Position at March 31, 1987.

11. UNFUNDED LIABILITY FOR MANITOBA DEVELOPMENT CORPORATION LOSSES

The Manitoba Development Corporation has accrued losses at March 31, 1987, related to the divestiture of Flyer Industries Limited that exceed the funding provided by the Province at that date by $7 million ($7 million as at March 31, 1986). The Province has accrued a liability of this amount to the Corporation in order to recognize the Province's responsibility to fund this amount when it becomes payable.

12. INCREASE (DECREASE) IN VALUATION ALLOWANCE

The Valuation Allowance provided for the estimated reduction in the realizable value of loans, advances and long–term investments decreased by $135 million to $58 million at March 31, 1987. The decrease is largely the result of the write–down (off) of loans, advances and long–term investments described in Note 9. If the adjustment had not occurred, the Valuation Allowance balance at March 31, 1987 would have been $243 million, an increase of $50 million from the $193 million provided at March 31, 1986. This increase is attributed to the following:

	($ millions)
Additional funding provided for the divestiture of Flyer Industries Limited	$ 22.0
Appraisal value adjustment of land held for future development by the Manitoba Housing and Renewal Corporation	11.3
Prospective loan forgiveness in Jobs Fund Development Agreement Loans	6.4
Operating deficit of Manfor Ltd. for the year ended December 31, 1986	2.3
Write–down of the value of the Province's 25% interest in the Tantalum Mining Corporation of Canada Limited	1.0
Increase in allowance for doubtful accounts provided for various Government loan programs	7.0
	$ 50.0

A change in Government accounting policy will result in the provision of an appropriation in future years to record similar non–recoverable amounts in the expenditure of the Government. This change is effective for operating losses and other non–recoverables arising during the 1987–88 fiscal year which will be recorded in the expenditure accounts for 1988–89.

13. LEGISLATIVE AUTHORITY FOR BORROWING AND EXPENDITURE

Limits established by legislation for borrowing funds and for expenditure from appropriations are shown below along with information regarding any non–compliance with these limits that may have occurred during the fiscal year.

1) **BORROWING:**

	($ millions) Appropriation Acts	Loan Acts
Incremental Non–Lapsing Authority Provided in 1986 Acts	$ 700	$ 1,451
Amount Used During the Fiscal Year Ended March 31, 1987	399	94
Available for Future Years	$ 301	$ 1,357
Unused Borrowing Authority From Prior Years	1	1,133
	$ 302	$ 2,490
Less: Encumbered for Specific Purposes	–	75
Unencumbered Borrowing Authority at March 31, 1987	$ 302	$ 2,415

2) **EXPENDITURE:**

A) CHANGES FROM ORIGINAL BUDGET ESTIMATE

The original budget estimate shown on the Statement of Revenue and Expenditure consists of the statutory and voted appropriations that are authorized in the Main and Supplementary Estimates. This amount was increased during the fiscal year as follows:

	($ millions)
ORIGINAL:	
Main and Supplementary Estimates (including general statutory appropriations)	$ 3,870
INCREASED BY:	
Special Warrants	94
Adjustment of estimated amount of statutory appropriations to actual expenditure	74
Total Authorized Expenditure	$ 4,038

B) NON-COMPLIANCE WITH APPROPRIATION LIMITS

One voted appropriation of the Government ended the fiscal year in a net overexpended position because the program involved processed expenditures in excess of the amounts recovered from Departments. This program provides a central service to other Government Departments and, as authorized by the Appropriation Act, incurred expenditures on behalf of Departments in anticipation of recoveries. Because the recoveries did not materialize prior to the close of the fiscal year, the following net overexpenditure was incurred (rounded to the nearest dollar):

Appropriation XIV-3 Communication Services in the Department of Culture, Heritage and Recreation	$ 36,354

In addition to the above, sixteen other appropriations of the Government had late accounts paid in the 1987-88 fiscal year that were in excess of the balance remaining in the appropriation at March 31, 1987. Because these late accounts were liabilities at March 31, 1987, they result in non-compliance with appropriation limits established for the respective programs.

14. **COMPARISON TO BUDGET ESTIMATE**

For purposes of providing a meaningful comparison of changes in the Operating Fund financial position with the budget estimate, in addition to the budget data, other internally developed management information has also been included in the budget estimate information.

15. **SUBSEQUENT EVENTS**

ENERGY RATE STABILIZATION ACT AMENDMENT

In the Budget Address of March 16, 1987 the Minister of Finance announced the amendments to the Energy Rate Stabilization Act, effective April 1, 1987 that will result in the following changes:

i) NEW LONG-TERM DEBT

Manitoba Hydro will assume responsibility for the translation gains or losses associated with all foreign borrowings transacted on or after April 1, 1987.

ii) EXISTING LONG-TERM DEBT

a) In foreign currencies other than United States Dollars:
The Province will retain responsibility for the translation of gains or losses associated with existing foreign debt denominated in currencies other than United States Dollars.

b) In United States Dollars:
Effective April 1, 1987, the foreign exchange risks associated with holding United States dollar denominated debt were transferred by the Province of Manitoba to Manitoba Hydro. Consequently the latter will assume responsibility for the translation gains or losses associated with this debt. The Province retains the obligation to pay only the amounts that have been provided in the Province's accounts in respect of this debt to March 31, 1987. This obligation amounts to approximately $159 million and will be disbursed at the maturity dates of the respective debt issues.

GOVERNMENT OF THE PROVINCE OF MANITOBA

ACCOUNTING POLICIES–STATEMENT AND APPLICATION

STATEMENT OF ACCOUNTING POLICIES

The basic accounting policies followed by the Government of Manitoba, which have been applied in the preparation of these Financial Statements are summarized below. These policies have been developed and are applied in accord with the provisions of the Financial Administration Act, which is Chapter F55 of The Continuing Consolidation of The Statutes of Manitoba. Further information regarding their application to the financial transactions of the Government is provided in the section entitled "Application of Accounting Policies".

I. THE ACCOUNTING ENTITY

The financial transactions of the Government are recorded in "The Consolidated Fund". The activities of The Consolidated Fund are divided into the "Operating Fund", which records the operational activities of the Government, and the "Trust Fund", which records the trust administration function.

Financial statements prepared for the "Operating Fund" report amounts received as Government revenue, expenditure on Government programs, the lending and investment of Government funds and the borrowing and repayment of debt. Financial statements prepared for the "Trust Fund" report the activities in the various categories of trust money administered by the Government.

The financial operations of the provincial Crown Corporations, Agencies, Boards and Commissions are reflected in The Consolidated Fund to the extent that:

1) They receive money from or pay money to the Government.
2) Any deficits they incur are adjusted against the amounts loaned, advanced or invested in them by the Government.

II. BASIS OF ACCOUNTING FOR REVENUE AND EXPENDITURE

A REVENUE

i) Revenue is ordinarily recorded on a cash basis, with the exception of provincially collected tax revenue, income from investments and advances, shared–cost receipts and Canada–Manitoba Fiscal Arrangements. Accordingly, all money received by Departments on or before March 31 is included in the revenue for the fiscal year, provided that it is deposited with the Minister of Finance prior to the thirtieth day of April, immediately following.

ii) Provincially collected taxes received by the Government in April with respect to collections made by Agents during March are recorded as revenue for the fiscal year just ended.

iii) Income from investments and interest on advances are recorded on an accrual basis. In the case of the provincial sinking funds, any discount or premium arising on purchase is amortized over the period to maturity.

iv) Money received pursuant to shared–cost agreements and arrangements that extend over more than one fiscal year is recorded as revenue in each fiscal year in proportion to the related expenditure made in the respective year.

v) Revenue and expenditure are recorded in gross amounts (referred to as the Gross Accounting Concept) with the exception of the Municipal Share of Individual and Corporation Income Taxes, which is paid to Municipalities in accordance with the Provincial–Municipal Tax Sharing Act and is not recorded as revenue by the Government.

vi) Recoveries from Crown Corporations and Government Agencies of the debt servicing costs on self–supporting debt are recorded as a reduction of Public Debt expenditure. The same treatment is also given to income earned on investments and interest on advances.

B EXPENDITURE

Expenditure is recorded on a cash basis, modified to allow an additional forty–five days after the end of the fiscal year for the processing of payments pertaining to that fiscal year. Salaries and wages, however, are charged to the fiscal year in which they are paid.

An accrual is made to March 31st for interest payable on bonds, debentures and other long–term debt and on trust funds invested with the Minister of Finance. An annual provision is made for unrealized losses (gains) on long–term debt that is payable in foreign currencies so that this cost is amortized over the life of the debt issue. Any discount, premium or commission incurred on the issue of the debt is also amortized over the life of the issue.

III. ASSETS AND LIABILITIES

1. The assets and liabilities reported in the financial statements are financial claims consisting of assets which are claims by the Government on other parties and liabilities which are claims by other parties on the Government.
2. Expenditure for the acquisition and/or construction of physical assets together with inventories and other deferred expenditures is not considered to differ from any other service to the public and accordingly is treated as an expenditure of the year in which the expenditure is made. Since such expenditure does not represent financial claims on others, it is not reported as an asset at fiscal year end. This does not negate the fact that the Government has substantial holdings of physical assets such as buildings, highways, education and health facilities, which may tend to appreciate in value over time.
3. Loans, advances and long–term investments held by the Government are subject to annual revaluation. A Valuation Allowance is provided and is adjusted annually to reflect the estimated change in value of these assets.

4. Bonds, debentures and other long-term debt are recorded as liabilities at the par value of such securities. Any discount, premium or commission incurred at the time of issue of the debt is amortized over the life of the debt issue. For foreign issues, the par value is converted to Canadian Funds at the exchange rate in effect at the date of issue, or the actual conversion rate of the proceeds. Sinking funds are maintained in accordance with the legal requirements of the debt instruments and the Financial Administration Act.

IV. GUARANTEED AND INDIRECT LIABILITIES

In addition to having direct debt, the Government also acts as a guarantor of securities issued by various other entities. The debt guaranteed pertaining to Crown Corporations, Agencies, Boards and Commissions is largely self-supporting. Other guaranteed debt for schools, universities and hospitals is serviced in whole or in part from appropriations of the Consolidated Fund. Legislation requires the maintenance of Sinking Funds for the retirement of the debt of most Crown Corporations, Agencies, Boards and Commissions. These Sinking Funds are maintained by the Minister of Finance through annual contributions from the Crown Corporation, Agency, Board or Commission to whom the debt applies and are held in the Trust Fund.

Other Contingent Liabilities that result from other financial activities of the Government are also reported annually in the Public Accounts.

APPLICATION OF ACCOUNTING POLICIES

The following outlines the application of these accounting policies to the financial transactions of the Government:

I. REVENUE

The revenue of the fiscal year is generally the amount received during the fiscal year. Exceptions are made for provincially collected taxes, shared-cost receipts, income from investments, and revenue from the Government of Canada, which are subject to the following additional practices:

a) Provincially collected taxes received by the Government in April with respect to collections made by Agents during March are recorded as revenue for the fiscal year just ended. These amounts are recorded as an account receivable from these Agents as at March 31.

b) A revenue receivable is recorded at March 31st for the interest accrued to that date on the temporary investments of the Operating Fund, on investments owned by the Province of Manitoba Sinking Fund and on advances to Crown Corporations, Agencies, Boards and Commissions. This amount is shown as a revenue receivable even though the income from investments is treated as a reduction in the Public Debt appropriation. The discount (premium) incurred at the time of purchase of the sinking fund investments is also recognized annually in the accounts. The discount (premium) is amortized over the term of the investment with a proportionate increase (decrease) in the book value of the investment.

c) Where, pursuant to an agreement or arrangement, money is received in advance relating to projects for which expenditure is to be made in more than one fiscal year, the money is deemed to have been received in each fiscal year in proportion to the related expenditure made in the respective fiscal year.

d) It is the practice to show the uncollected balance of claims related to shared-cost agreements with the Government of Canada as an account receivable at March 31. This accrual is made in order that the revenue from this source is recorded in proportion to the related expenditure incurred in the fiscal year.

e) The accounts are kept open until June 30 to reflect any adjustments regarding revenue from the Government of Canada under the Canada-Manitoba Fiscal Arrangements that the Government of Manitoba may become aware of before that date. Since this is a major source of Government revenue, this practice is considered necessary to show the financial condition of the Government in the most accurate manner possible.

II. EXPENDITURE

Expenditure of the fiscal year is essentially payments made from appropriations during the fiscal year and for a subsequent forty-five day period after March 31. The accounts remain open during this period to allow processing time for expenditure pertaining to the fiscal year just ended.

The following additional practices are applicable when recording the public debt costs of the Province:

1. An accrual is made to March 31st for the interest payable on bonds, debentures and other long-term debt and on trust funds invested with the Minister of Finance. In the case of foreign issues, the accrual is based on the exchange rate that was recorded at the time of debt issue. There is no provision made for the fluctuation of foreign currencies between the debt issue dates and the interest payment dates.
2. An annual provision is made for the unrealized losses (gains) that will occur at maturity on long-term debt that is payable in foreign currencies because of fluctuations in currency values over the life of the issue.
3. Any discount, premium or commission incurred on the issue of long term debt is amortized over the life of the respective debt issue.

The Valuation Allowance is not charged to an appropriation. This amount, which represents an estimate of the change in recoverable value of loans and advances and long-term investments during the fiscal year is reported as a separate item on the Statement of Revenue and Expenditure but is not included in the "Net Budgetary Requirement".When a legal realization of the loss occurs, the final write off of the loan, advance or investment will also be disclosed after the operating results on the Statement of Revenue and Expenditure.This Policy is undergoing revision as explained in paragraph a) under "Changes in Accounting Policies".

Payments made by the Government for capital purposes are classified in a separate category of expenditure called "Expenditures Related to Capital" and are defined as follows:

a) Expenditures for property of all kinds, both real property and chattels, purchased or self-constructed for use by Government that are deemed to have an economic life in excess of one year.

b) Expenditures for projects or activities which entail major renewals, modification or modernization by own labour forces on behalf of the Government. The expenditures should significantly prolong the expected economic life of the asset.

c) The principal portion of a debt repayment when the debt was incurred to acquire a physical asset and the acquisition cost of the physical asset was not previously reflected in the Consolidated Fund as an expenditure.

d) Grants or assistance payments to municipalities, school divisions, external agencies, commercial organizations and private individuals which are known to be for the purchase, construction or improvement of physical assets.

III. ASSETS AND LIABILITIES

The Statement of Financial Position — Operating Fund is prepared in accordance with the following practices:

1. **CASH AND EQUIVALENTS**
This classification is comprised of the temporary investments of the Province which are reduced by the net overdraft in the Province's bank accounts. It is further reduced by the amount of uninvested cash belonging to the Provincial Sinking Fund. This cash is designated as part of the Provincial Sinking Fund and will be made available for long-term investment when required. Temporary investments are securities held as a result of the investment of the Government's cash flow and are generally comprised of money market instruments such as term deposits and negotiable securities which are intended to be held for a short term. All investments are shown at cost. The net bank overdraft has been adjusted for cheques issued prior to and not presented for payment at March 31st and for cash in transit.

2. **REVENUE RECEIVABLE**
Amounts accrued at March 31st for provincially collected tax revenues, interest on investments and advances and the uncollected balance of claims related to shared-cost agreements with the Government of Canada are shown here.

3. **LOANS AND ADVANCES**
Advances to Crown Corporations, Agencies, Boards and Commissions, which are generally interest bearing, are shown under this heading.

The Sinking Funds provided by Crown Corporations, Agencies, Boards and Commissions for repayment of the debt issued to fund advances to these entities are deducted from the advances.

Certain of the Crown Corporations are charged with a responsibility for administering Government programs for which they receive funds from Government appropriations. These funds are applied by the Corporation towards the program administration cost, including, in some cases, a portion of the interest they are charged on these advances. The principal repayment and/or interest charges for certain of the advances are dependent on total or partial funding from future appropriations of the Operating Fund.

Loans and advances to Municipal Corporations or others under various Government programs are included here. Certain of these amounts may be interest bearing depending on the nature of the program.

All loans and advances are recorded at cost and are subject to annual valuation to reflect reductions from their recorded value to their estimated realizable value.

4. **LONG-TERM INVESTMENTS**
The majority of the Province's long-term investments consist of shares and debentures of Crown Corporations. These investments are carried at cost which does not reflect the realizable value of the investments. Any decrease in the estimated realizable value is provided for in the valuation allowance, which is described in the next paragraph.

5. **VALUATION ALLOWANCE**
An allowance is provided for decreases in the value of loans, advances and long-term investments and is adjusted annually for changes that may occur in the estimated realizable value of these assets. The allowance is determined as follows:

a) ACCUMULATED DEFICITS OF CROWN CORPORATIONS, AGENCIES, BOARDS AND COMMISSIONS
The allowance is used to provide for the accumulated deficits of the Crown Corporations, Agencies, Boards and Commissions in which the Government has invested money by way of loans, advances or purchase of shares. The valuation is based on the audited financial statements applicable to the fiscal year that is closest to March 31st. If the Government has more than one type of investment in an organization (eg. common shares, preferred shares and debentures), the accumulated deficit is assigned against the investments in order of priority on liquidation.

Losses covered by the allowance are reviewed to ascertain the prospect for recovery of the loss from the future operations of the entity involved. Losses incurred in a fiscal year that are considered non-recoverable are incorporated in the Government's Estimate of Expenditure in the immediate following fiscal year.

The loan, advance or investment is written-down (off) in the accounts of the Government, pursuant to authority provided under the

Financial Administration Act, and the amount written–down (off) is recorded in an appropriation provided for that purpose. Notwithstanding the foregoing procedure, the Province does not extinguish its right to enforce collection or reinstatement of the amounts written–down (off) should the prospect for recovery improve and will report these amounts as a "contingent recoverable".

b) ALLOWANCE FOR DOUBTFUL ACCOUNTS
The allowance is used to provide for the estimated amount not recoverable under a Government loan or support program. The allowance for doubtful accounts that has been established for that program is recorded by means of a valuation allowance placed against the loan or advance used to fund the program. The increase in the allowance recorded at the end of the fiscal year is incorporated in the Government's Estimate of Expenditure in the immediate following fiscal year. Increases are recorded in the appropriation(s) provided regardless of the timing of the write–off of the uncollectible accounts. Write–offs are made directly against the valuation allowance.

6. **AMOUNT OWING TO THE TRUST FUND**
A large portion of this money has been deposited with the Minister of Finance in accordance with the terms of the legislation regulating the management of sinking funds and surplus cash of Crown Corporations, Agencies, Boards and Commissions, but is not specifically invested. Such deposits are accorded a market rate of interest.

7. **ACCOUNTS PAYABLE, ACCRUED CHARGES AND FUNDS SUBJECT TO CALL**
Cheques issued during the forty–five day period after March 31, in payment for goods and services pertaining to the fiscal year just ended are shown as accounts payable rather than as outstanding cheques.

Accrued charges represent the accrual of interest on provincial securities and on Trust Funds, an accrual of the Province's share of Public Schools Support costs unpaid at March 31st and the recording of a liability to the Manitoba Development Corporation for losses accrued by the Corporation related to the divestiture of Flyer Industries Limited.

Funds subject to call consist of money received from the Government of Canada under shared–cost programs that will not be taken into revenue until earned.

8. **BORROWINGS**
This category includes bonds, debentures, secured loans from the Government of Canada, treasury bills and notes. Securities issued in Canadian funds are recorded at par value. Securities issued in foreign funds are recorded at the Canadian Dollar equivalent of the par value based on the actual conversion of the proceeds or at the exchange rate in effect at the date of issue if conversion does not take place at issue date. Securities payable in foreign funds issued for the purpose of refunding other issues payable in the same currency are recorded at the Canadian Dollar equivalent of the par value at the date of issue.

The Government is required, by legislation, to determine the Canadian Dollar equivalent of provincial securities issued in foreign currencies or units of monetary value at March 31st of each year. The amount determined must be published in the Public Accounts as information regarding the current valuation of this foreign debt. An annual provision is made for these unrealized losses (gains) as described in paragraph 9 below.

Borrowings are reduced by the unamortized balance of the discount, premium or commission incurred on the issue of long–term debt which will be amortized over the remaining term of the debt issues for which these costs were incurred.

Borrowings are also reduced by Sinking Funds which are maintained in accordance with the legal requirements of the debt instruments and the Financial Adminstration Act. Money is allocated annually to these Sinking Funds on the following basis:

a) A sum equal to 3% of the aggregate amount of general purpose debt, in Canadian Dollars, outstanding at the end of the preceding fiscal year; and

b) All earnings derived from investing the sinking fund.

In addition principal repayments of advances which are funded by the issue of provincial securities are deposited to the Sinking Fund provided that the principal repayments are made prior to the maturity date of such securities.

The total shown for sinking funds also includes sinking fund money provided by Crown Corporations, Agencies, Boards and Commissions in respect to debt incurred on their behalf by the Government.

9. **PROVISION FOR UNREALIZED FOREIGN CURRENCY LOSSES**
An annual provision is made for the estimated losses (gains) that could occur at maturity on long–term debt that is payable in foreign currencies because of fluctuations in currency values between the debt issue dates and maturity dates. Each fiscal year–end the foreign debt is revalued using the average of the exchange rates that were in effect during the fiscal year just ended and during the preceding two years. The provision is calculated by amortizing the currency fluctuation over the remaining term of the debt. Where an issue of debt is called prior to maturity and replaced with an issue payable in the same currency of the same maturity and par value, for the purposes of this amortization policy, the new issue is deemed to be the same as the original issue.

When the debt matures, the actual loss (gain) is adjusted against the cumulative provision for that specific debt issue. Any difference between the actual amount and the amount provided is charged (credited) to the Public Debt appropriation.

10. **EXCESS OF LIABILITIES OVER FINANCIAL ASSETS AND OTHER OBLIGATIONS HELD BY THE PROVINCE CONSIDERED TO BE SIMILAR IN NATURE:**

a) SERIAL DEBENTURES OF SCHOOL DIVISIONS AND DISTRICTS, TRANSFERRED FROM THE MANITOBA SCHOOL CAPITAL FINANCING AUTHORITY

The School Capital Financing Authority Act was repealed April 1, 1983 at which date all investments and money held by the Authority, as well as debt payable by the Authority, was assumed by the Government. The investments transferred to the Government consist of serial debentures issued by school divisions and districts for which the Government is primarily responsible for repayment. These securities are therefore included in this category because they do not represent a claim on other parties.

The budget estimate of expenditure provides an annual appropriation in the Consolidated Fund to cover the principal and interest costs of these debentures. The cash drawn from this appropriation for the required annual principal repayments is transferred to the Province's sinking fund where it will be used for repayment at maturity of the debt assumed from the Authority. A similar treatment would be accorded any proceeds from the sale of the school debentures.

b) SECURITIES RECEIVED FROM THE SALE OF LAND AND BUILDINGS TO MANITOBA PROPERTIES INC.

Land and buildings, having an aggregate value of $917 million, were sold to Manitoba Properties Inc. under various sales agreements during 1984–85 and 1985–86. In addition to cash, the purchase consideration received from the sale consisted of common shares of Manitoba Properties Leasing Inc. and Manitoba Properties Management Inc. and promissory notes from Manitoba Properties Inc.

The recorded value of the common shares has been reduced by a special valuation account which was established from a portion of the sale proceeds and is used to reflect the potential diminution in value of these shares as the result of dividends paid to preferred shareholders of Manitoba Properties Inc. on an annual basis. Manitoba Properties Leasing Inc. and Manitoba Properties Management Inc. jointly own all the common shares of Manitoba Properties Inc. and the value of their equity in these shares could decrease annually with the payment of dividends by the latter to preferred shareholders.

Interest payable to the Province on the promissory notes is funded from annual rental payments made by the Province to Manitoba Properties Inc. and is therefore dependent on future appropriations of the Consolidated Fund. These securities are therefore included under this category because they do not represent a claim on other parties.

c) EXCESS OF LIABILITIES OVER FINANCIAL ASSETS

This account and the two accounts previously described represent the difference between liabilities, which are financial claims owing by the Government, and financial assets, which are financial claims receivable by the Government. Since the physical assets and materials inventories of the Government do not constitute a financial claim receivable by the Government, they are not considered in the determination of this balance.

IV. CHANGES IN ACCOUNTING POLICY

Section 10 of the Financial Administration Act requires a statement of any change in the accounting policies of the Government from those followed in the preceding fiscal year. The changes for the fiscal year ended March 31, 1987 were as follows:

a) A change in the Government's policy related to the Valuation Allowance was initiated in 1986–87 and will require changes until 1988–89 before the conversion to the new policy is completed. While the Valuation Allowance will be determined in the same manner as it has in the past, those losses covered by the allowance which are considered to be non-recoverable will be incorporated into the Government's Estimate of Expenditure in the immediate following fiscal year. This change will commence with losses incurred in the 1987–88 fiscal year which will be covered by an appropriation provided in the 1988–89 fiscal year.

In order to initiate this policy, a transitional adjustment of $185 million was made through the Excess of Liabilities over Financial Assets account at March 31, 1987. The purpose of the adjustment is to write-down (off) the value of loans, advances and share equity investments provided to March 31, 1987 in recognition of losses accumulated to that date. A related accrual of $7 million to the Manitoba Development Corporation was also made to record a liability to that Corporation for losses that had not been funded by the Province at March 31, 1987.

b) Funding for Public Schools Support is in the process of being changed from the cash to the full accrual basis, commencing with the 1987–88 fiscal year. In order to accommodate the transition from the cash basis, an adjustment of $50 million was made through the Excess of Liabilities Over Financial Assets Account and an accrued liability to school divisions of $35 million was recorded at March 31, 1987. Authority to pay the accrued liability will be provided in the 1987–88 fiscal year.

V. ENTRIES MADE SUBSEQUENT TO JUNE 30, 1987

Section 8.1(2) of the Financial Administration Act requires disclosure of entries made after June 30th respecting transactions of the preceding fiscal year. Accordingly, the following are reported:

a) WRITE-OFF OF LOANS, ADVANCES AND LONG-TERM INVESTMENTS
Authorization for the write-down (off) of $185 million of loans, advances and long-term investments was provided by order-in-council 1363/87, approved on December 2, 1987, with retroactive effect to March 31, 1987. The entries giving effect to this order-in-council, as well as a related entry recording the unfunded liability to the Manitoba Development Corporation, were made at the approximate date of the order. Because of the timing of these adjustments, disclosure of these changes has not been made in the applicable financial statements of the Crown Corporations, Agencies, Boards and Commissions affected by the adjustment.

b) PUBLIC SCHOOLS SUPPORT
Entries affecting 1986-87, to allow for the transition from the cash to the accrual basis of accounting in 1987-88, were made in November, 1987.